

## ***PRECISION AND SENSITIVITY DIMENSIONS OF PROFIT AND BOARD OF DIRECTORS COMPENSATION (EVIDENCE FROM TEHRAN)***

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### ARTICLE INFO

#### Article history:

Received 21 December 2019

Accepted 24 February 2019

#### Keywords:

*Board of Directors  
Compensation Profit Precision  
Profit Sensitivity  
Earning Management  
Earnings Response  
Coefficients*

**JEL Classification: M12, M52**

### ABSTRACT

**Research aim:** This research aims to investigate how the precision and sensitivity dimensions of profit affect the board of directors' compensation. In this study, the precision indicators of profit namely earning management through accrual and manipulation activities in the form of increased profits, as well as conditional conservatism and the sensitivity indicators of profit namely earnings response coefficient and stock returns fluctuations were studied.

**Design/ Methodology/Approach:** The data related to the 121 companies listed in Tehran Stock Exchange for the period 2008 to 2017 were extracted and the combination regression model was used to test the hypothesis.

**Research finding:** The results showed that the abnormal accruals on compensation had a significant and positive effect that indicated the lack of sufficient attention to them. Manipulation activities in the form of increased profits and conditional conservatism had significant effect on board of directors' compensation. The earnings response coefficients indicators, had a positive effect on board of directors' compensation and returns fluctuations indicators had a negative effect on board of directors' compensation.

**Theoretical contribution/Originality:** The novelty of this research is to introduce the precision and sensitivity dimensions of profit in board of directors' compensation. Because if the compensation is not commensurate with board of directors actual performance not only will increase corporate value but also will be a means to transfer wealth. From the important indicators in measuring performance in compensation plans is the precision and sensitivity of reported earnings.

**Practitioner/Policy implication:** One of the most important applications of this research is development of theoretical foundations associated with compensation Plans, as well as helping to improve the conclusion of compensation contracts to reduce the agency costs and maximize company value.

**Research limitation/Implication:** An important limitation of this study is the lack of access to information related to board of directors' non-cash compensation.

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## 1- Introduction

If the reward does not correlate with the actual performance of board of directors, it will not only increase the value of the company but also be a means of transferring wealth. Several factors can lead to inefficient contracts and compensation schemes, one of

the most important of them is the lack of proper measurement of performance and its accuracy and sensitivity. Generally, the components of remuneration of directors are based on two performance measures, namely net profit and stock prices. Based on the theoretical basis of compensation, it can be predicted that the percentage of each of these indicators in